

RECLAMATION

Managing Water in the West

Managing for Excellence **Concept Paper**

Functional Area: Asset Sustainment

Executive Sponsor

Kirk Rodgers, Director, Mid-Pacific Region

Background/Drivers

Reclamation's vast inventory of water and power infrastructure constitutes an enormous public investment of approximately \$250 billion in current dollars. With over 75 percent of the Department of the Interior's constructed assets, Reclamation has a major stewardship role in managing this infrastructure in the public interest. The operational complexity and the age of much of this infrastructure will require focused management efforts to ensure that it continues to reliably deliver the benefits for which it was constructed well into the future, particularly in light of significant budgetary constraints.

In light of the issues discussed above, some questions Reclamation must answer in this *Managing for Excellence* evaluation include: how do we ensure that we and our stakeholders understand the financial situation of each of our facilities; how can that knowledge assist us in making the right business decisions regarding that asset; how much of our stewardship responsibility should be delegated to the districts; how much O&M of our reserved works can be beneficially outsourced while maintaining the core capabilities necessary to fulfill our mission responsibilities; and what benefits can we and our stakeholders gain from the best practices of other water management agencies in operating and maintaining our facilities? The teams in this functional area will address these questions and help to ensure that Reclamation and its stakeholders can meet the challenges of sustaining these crucial federal assets.

Financial Status Reporting

In order to better manage existing infrastructure, it is critical that Reclamation managers and staff possess a clear understanding of the business case for each facility. This will necessarily encompass the construction investment in the facility; the allocation and repayment status of those investment costs; the annual costs of operating and maintaining the facilities, including Reclamation's associated funding commitment; the facility condition; and significant projected future investments for Safety of Dams work or major rehabilitation needs. This Bureau-wide, project-by-project information would be invaluable for future decision making regarding what actions relating to those facilities make sense, and who should do them. Consistent, accurate reporting of this information to our stakeholders will also be of great benefit as they partner with us in effectively managing this infrastructure.

The team responsible for Action Item 25 is developing a suite of reports that can be used consistently throughout the agency to accomplish these objectives. These reports will provide user-friendly graphic summaries of project investment and repayment, actual and projected out-year annual operation and maintenance (O&M) costs, a measure of facility condition, and projected major or

extraordinary O&M investments. The repayment portion of the reports will likely link from the Statement of Project Construction Costs and Repayment, a detailed, audited financial report which Reclamation currently prepares on an annual basis. The team intends to recommend guidance on the consistent preparation of these reports, as well as that they be made widely available both internally and externally. A consistent O&M billing format is also being developed by this team. This standard format would establish a minimum level of detail that will be provided to all customers throughout the agency that receive annual O&M bills from Reclamation. It is recognized that many customers may currently receive a greater level of detail than what will be recommended, or than what many other customers may desire. The team's recommendations are not intended to modify such existing arrangements, but rather, to establish a minimum standard. The facility condition and future investments portion of the reports are still being considered. They would present, in a concise, user-friendly format, a measure of the facility condition, significant recommendations from routine O&M reviews, dam safety inspections, and other projected major O&M investments. This portion of the report would also illustrate the allocation of facility O&M costs.

These reports, along with an explanation of how costs are assigned and billed within Reclamation, were presented to stakeholders during Reclamation's public meeting July 10-11 in Las Vegas. In addition, they are currently being presented to a broad cross-section of customers throughout Reclamation on an individual basis to solicit feedback on their usefulness. Stakeholders who have not had opportunity to provide input to these products in one of these forums are encouraged to do so by reviewing the July presentation on the *Managing for Excellence* website and providing comments. The team's final products and recommendations, which may also include training/educational materials for Reclamation managers and staff, will be presented to Reclamation leadership for review in October, 2006. An outline form of Team 25's objectives, tasks, and milestones, as well as contact information, is attached. It should be noted that this and all other Action Item Summaries are subject to refinement based on input from Reclamation managers, staff, customers, and other stakeholders.

Transfer and Outsourcing of O&M

Also essential to a discussion of stewardship responsibilities are two important concepts within Reclamation: transferred works and reserved works. On many of its projects, Reclamation has delegated responsibility for the work of operating and maintaining the facilities to the project beneficiaries. These facilities are then referred to as "transferred works." Because of the additional responsibilities that may be delegated, and the type of relationship established, this is not considered typical outsourcing, and will instead be referred to as transfer of O&M. Those facilities that Reclamation continues to operate and maintain are referred to as "reserved works." However, such functions could potentially be contracted (outsourced) to entities other than project beneficiaries.

The National Research Council, in its *Managing Construction and Infrastructure in the 21st Century Bureau of Reclamation* report (NRC Report), recommended that “Reclamation should establish an agency-wide policy on the appropriate types and proportions of work to be outsourced to the private sector. O&M and other functions at Reclamation-owned facilities, including field data collection, drilling operations, routine engineering, and environmental studies, should be more aggressively outsourced where objectively determined to be feasible and economically beneficial.”

From that recommendation and discussion in the report, Reclamation developed action items in its *Managing for Excellence* Action Plan to: 1) Determine where opportunities exist for beneficial transfer of O&M responsibility to water users; and, where transfer of O&M responsibility to project beneficiaries is not feasible or desired, 2) Determine where opportunities exist for beneficial outsourcing of O&M for reserved works. The team responsible for Action Items 26-27 will evaluate where those opportunities exist and under what criteria they should be pursued, and will develop a strategy for pursuing those which are deemed appropriate. The team has prepared a comprehensive list of the O&M responsibilities on each Reclamation project, and is currently reviewing relevant law and policy, as well as historical experiences with O&M transfer in order to develop criteria for identifying potential candidates for transfer or outsourcing. Stakeholder input on the appropriateness of these criteria will be actively sought during early 2007. Based on a review of Reclamation’s projects according to these criteria, the team will then meet with project beneficiaries or potential outsourcing contractors for those projects deemed most appropriate for consideration of these opportunities. Based on these efforts, the team will report its findings and recommendations for review by Reclamation leadership in August 2007.

Transfer of Title

While transfer of O&M responsibilities to project beneficiaries would reduce Reclamation’s workload and could lead to increased efficiencies, Reclamation continues to retain ultimate responsibility for the facilities, and continues to be involved in frequent reviews and other oversight functions. Complete transfer of responsibility can occur only when actual title to the facilities is transferred to the beneficiaries. With this transfer of title, the liability associated with the facilities also shifts to the title recipient. This has, in some cases, tempered the interest of project beneficiaries in taking title to facilities.

While transfer of title requires Congressional authorization, Reclamation has an established framework for facilitating this process. An evaluation of Reclamation’s title transfer program was completed in 2003. The team responsible for Action Item 28 will review and update that report, interview recent title transfer recipients to identify lessons learned from past title transfer efforts. The team will also consider ways to streamline and incentivize the title

transfer process, and to proactively seek opportunities for transfer of title on those facilities where it is deemed appropriate. A draft report on the team's findings and recommendations will be issued for review in March 2007. Interested stakeholders are encouraged to provide input to the development of this report at Reclamation's public meeting in November 2006. The team's final report will be presented to Reclamation leadership in June 2007

O&M Planning and Budgeting

One of the most important aspects of managing a large inventory of assets is appropriate planning and budgeting for their upkeep. The NRC Report specifically recommends that, "Because effective planning is the key to effective operations and maintenance, Reclamation should identify, adapt, and adopt good practices for inspections and O&M plan development for bureau-wide use. Those now in use by the Lower Colorado and Pacific Northwest regions would be good models." From that recommendation, Reclamation developed action items in its *Managing for Excellence Action Plan* to 1) Analyze the effectiveness of current O&M planning (does it square with the Reclamation's Asset Management Plan and is it being done agency-wide?); and 2) Integrate O&M planning with the budgeting process (analyze the extent to which the current Budget Review Committee process accomplishes this).

In order to accomplish this task, Team 29-30 will identify and document what constitutes "O&M Planning" within Reclamation (e.g., annual O&M, RAX identification, O&M prioritization and scheduling, deferred maintenance decisions, long-term planning, etc.); identify and document the relationship between "O&M Planning" and "O&M Budgeting" within Reclamation; identify best practices for O&M Planning used in Reclamation, including their applicability agency-wide (note citation of Lower Colorado and Pacific Northwest Regions' processes in the NRC Report); and identify any adjustments needed in the Budget Review Committee's process to incorporate these best practices. In addition to these internally-focused efforts, the team will document and evaluate existing stakeholder involvement in O&M Planning Budgeting. Based on these efforts, the team will then prepare recommendations as to which best practices and/or Budget Review Committee changes should be adopted; how they should be adopted (Asset Management Plan, Policy Statement, Directives and Standards, guidelines, etc.); and who should be accountable for their adoption. Input on this process was solicited and received at Reclamation's public meeting in Las Vegas July 10-11. The team's recommendations will be submitted to Reclamation leadership for consideration in September 2006.

O&M Benchmarking

As a means to seek further efficiency gains in the operation of Reclamation's infrastructure, the team responsible for Action Item 31 will conduct appropriate

benchmarking activities on the operation and maintenance of Reclamation's reserved works water storage facilities with federal and non-federal entities operating similar facilities. This will be accomplished in a manner modeled after current practices at Reclamation power facilities, beginning with a pilot program.

The team has developed a proposed scoping document and criteria for how the benchmarking process is envisioned. This document was presented for review and discussion at Reclamation's public meeting in Las Vegas. Based on this proposed scoping document, and the comments received from stakeholders at the public meeting, the team is proceeding to identify an appropriate pilot program, invite the participation of benchmarking partners, and develop performance metrics to be used in the benchmarking process. Data on these metrics will be collected and analyzed in early 2007. Subsequent to the benchmarking activities, a draft report will be available for review and comment in approximately May of 2007. The final report will then be presented to Reclamation Leadership. For an outline form of Team 31's objectives, tasks, and milestones, as well as contact information, please see the attached Action Item Summary.

Relationship to other Functional Areas

Although they will not be direct inputs into the rightsizing process outlined in the concept paper on Engineering and Design Services, the recommendations of teams 26-28 will have bearing on the appropriate future size and location of engineering and design capability within Reclamation, and stakeholders interested in the rightsizing issue are encouraged to give input to the work of these teams. Also, a number of these action items may result in implementation recommendations that would include the issuance of Reclamation Manual Policies and/or Directives and Standards. These would likely be developed in coordination with the activities of teams 6-7 in the Policies and Organization functional area.

Action Item 25

Establish and implement a standard, agency-wide process for evaluating and communicating the current financial circumstances of all Reclamation infrastructure, including cost invested, repayment status, Operation and Maintenance (O&M) cost allocation, design life, facility condition, etc.

Team Lead: Efraim Escalante, Special Assistant, Policy Management and Budget, Commissioner's Office

Team Members:

- Kathy Marshall, Regional Financial Manager, Pacific Northwest Region
- Bruce Stockinger, Regional Financial Manager, Lower Colorado Region
- Mary Halverson, Regional Finance Officer, Upper Colorado Region
- Katherine Thompson, Regional Business Manager, Mid-Pacific Region
- Karl Stock, Economist, Contract Services Office, Office of Program and Policy Services

Objectives:

- Provide methodologies and develop policies to present information on project financial status (Construction and O&M costs)
- Enhance customer and Reclamation manager understanding of how Reclamation assigns costs to its projects, how these costs are allocated to project purposes, and how these costs are reported to water and power users

Tasks:

- Develop standard reports of financial status
- Develop a simplified, standard bill for collection of O&M costs
- Develop "Project Cost" training module/course for managers and customers

Milestones:

- May 2006: Review current reporting practices, develop prototype reports/products, obtain initial feedback from Reclamation managers.
- June 2006: Refine prototype reports/products for subsequent review by external customers.
- July 2006: Obtain feedback from external customers
- August 2006: Revise products, pilot internally and externally
- September 2006: Finalize deliverables and present for executive review

Products to be Developed:

- Report of Project Investment and Repayment
- Report of Annual O&M Costs and Allocation of Costs
- Facility Reliability and Future Major Investments
- Implementation Plan

Action Item 26

Determine where opportunities exist for beneficial transfer of Operation and Maintenance (O&M) responsibility to water users and implement them.

Action Item 27

Determine where opportunities exist for beneficial outsourcing of O&M for reserved works and implement them.

Team Lead: Randy Chandler, Deputy Manager, Phoenix Area Office, Lower Colorado Region

Team Members:

- Darrel Krause, Program Analyst, Maintenance Services Office, Office of Program and Policy Services
- Bruce Barrett, Area Manager, Provo Area Office, Upper Colorado Region
- Richard Long, Manager, Facilities O&M Division, Montana Area Office, Great Plains Region
- William Gray, Deputy Area Manager, Ephrata Field Office, Pacific Northwest Region
- Steve Herbst, Civil Engineer, Facilities Engineering, Mid-Pacific Region

Objectives:

- Determine where opportunities exist for O&M Transfer.
- Determine where opportunities exist for Outsourcing O&M of Reserved works.

Tasks:

- Develop a comprehensive updated project list of O&M responsibilities in Reclamation.
- Identify past and current efforts to transfer or outsource (i.e. lessons learned).
- Evaluation of laws and policies that may allow or restrict O&M transfers and outsourcing of projects.
- Identify potential obstacles to transfer or outsource.
- Develop criteria and process for identifying potential candidate projects for either transfer or outsourcing.
- Meetings with Stakeholders.

Milestones:

- July 2006: Comprehensive list of O&M responsibilities by Region will be completed.
- February 2007: Criteria for identifying likely candidate projects for outsourcing will be completed.
- April 2007: Water user groups will be solicited for their interest in transferring O&M.
- August 2007: Strategy report summarizing findings and recommendations will be available.

Products to be Developed:

- Strategy report

Action Item 28

Determine where opportunities exist for mutually beneficial transfer of title to project sponsors in order to eliminate Reclamation's responsibility and costs for those facilities, and encourage any that are appropriate.

Team Lead: Randy Chandler, Deputy Manager, Phoenix Area Office, Lower Colorado Region

Team Members:

- James Hess, Associate Director Operations, Commissioner's Office
- Margot Selig, Economist, Boulder Canyon Operations Office, Lower Colorado Region
- Donna Tegelman, Manager, Regional Resources, Division of Resources Management, Mid-Pacific Region
- Don Olsen, Chief, Water Resources Group, Resource Management Division, Upper Colorado Region
- Roxanne Peterson, Supervisor, Land and Resource Services, Great Plains Region
- Dick Stevenson, Branch Chief, Water Rights & Contracts, Mid-Pacific Region
- Ben Simon, Dept. of the Interior

Objectives:

- Make recommendations in order to identify where there may be opportunities for mutually beneficial transfers of title to project sponsors in order to eliminate Reclamation's responsibility and costs for those facilities.

Tasks:

- Review and update 2003 report titled "Evaluation of the Title Transfer Program of the Bureau of Reclamation."
- Identify obstacles or barriers experienced in past Title Transfer efforts (i.e. lessons learned).
- Explore ways to eliminate or streamline Title Transfer process.
- Explore potential "carrots" that may encourage Title Transfers.
- Develop criteria that might lead to success of partial or complete Title Transfer of projects.
- Meet with stakeholders to get feedback on draft criteria.
- Make recommendations for program improvements.

Milestones:

- September 2006: Complete evaluation of past transfer barriers, review of 2003 report and the development of "carrots" and criteria for more successes.
- March 2007: Draft recommendations report will be available for review.
- June 2007: Report of recommendations will be completed.

Products:

- Report of recommendations

Action Item 29

Analyze effectiveness of current Operation and Maintenance planning (does it square with the Bureau Asset Mgmt Plan, and is it is being done agency-wide).

Action Item 30

Integrate O&M planning with the budgeting process (analyze the extent to which the current Budget Review Committee process accomplishes this).

Team Lead: Randy Chandler, Deputy Manager, Phoenix Area Office, Lower Colorado Region

Team Members:

- Ken Maxey, Manager, Maintenance Services Office, Office of Program and Policy Services
- Jennifer McCloskey, Deputy Area Manager, Yuma Area Office, Lower Colorado Region
- Jeff Nettleton, Manager, Rapid City Field Office, Great Plains Region
- Deborah Linke, Manager, Power Resources Office, Office of Program and Policy Services
- Todd Dixon, Administrative Officer, Montana Area Office, Great Plains Region
- Jennifer Carrington, Regional Budget Officer, Pacific Northwest Region

Objectives:

- Examine Reclamation's Operations and Management planning and related budgeting processes to:
 - Identify best practices & deficiencies within Reclamation O&M planning
 - Examine and compare Reclamation to other O&M entities
 - Review and examine Budget Review Committee (BRC) Process related to O&M
 - Recommendations for improvements

Tasks:

- Interview Reclamation O&M staff responsible for O&M planning at selected projects
- Conduct Interviews with selected external O&M entities
- Interview stakeholders to determine current and desired involvement in the O&M planning process
- Evaluate current BRC process for O&M budgeting
- Provide recommendations as to which best practices and any BRC changes that should be adopted, how they should be adopted, and who should be accountable for their adoption

Milestones:

- June-July 2006: Interview Boulder Canyon and Bonneville Power Administration customers working groups about their stakeholder involvement in the Budget process.
- September 2006: Report of recommendations will be completed.

Products:

- Report of recommendations

Action Item 31

Benchmark O&M of water storage and distribution facilities in a manner modeled after current practices with power facilities, starting with pilot program.

Team Lead: Mike Roluti, Senior Advisor/Power Liaison, Office of Technical Resources

Team Members:

- Darrel Krause, Program Analyst, Maintenance Services Office, Office of Program and Policy Services
- Rich Kristof, Branch Chief, Facilities Engineering, Mid-Pacific Region
- Vicki Hoffman, Civil Engineer, Facility Operations & Maintenance, Pacific Northwest Region
- Scott Boelman, Supervisory General Engineer, Great Plains Region
- Erin Gleason, General Engineer, Power Resources Office, Office of Program and Policy Services

Objectives:

- Benchmark the water operation and maintenance of water storage and distribution facilities in a manner modeled after current practices with power facilities, including a pilot program.

Tasks:

- Conduct literature search on past water O&M benchmarking efforts.
- Propose scope of effort and performance metrics for this study.
- Seek stakeholder input/feedback on scope/metrics.
- Seek benchmarking partners.
- Scope extent of pilot program.
- Collect and analyze data (use contracted services, if needed).
- Produce draft report.
- Peer review of draft report.
- Conduct internal/external review of final draft report.
- Finalize report and distribute.

Milestones:

- July - September 2006: Seek benchmarking partners.
- October 2006: Scope pilot program.
- November 2006 - February 2007: Collect and analyze data (gap analysis).
- March 2007: Produce draft report based on analyses.
- April 2007: Peer review of draft report.
- May 2007: Broad internal/external review of final draft report.
- June 2007: Final report completed and distributed.

Products:

- Report of findings